

RETYPE

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About This Proposal

The following Proposal was prepared for the law firm of Michael Flynn by Flynn Associates Management Corporation (F.A.M.C.O.). ①

The proposal begins with a short history of the litigation followed by an analysis of present and future cases. Then an evaluation of the impact the litigation has had on Scientology, relative to Scientology costs and loss of income.

Finally, Flynn Associates Management Corp. organized a network of lawyers throughout the U.S. and prepared a system of "turnkey" lawsuits in strategic geographic areas. Discussion of this included within the proposal under the section entitled "May Conference". The May Conference is a meeting of lawyers litigating Scientology cases to discuss overall Scientology strategy. ②

Investors Prospectus to Purchase Shares in FAMCO ③

Description: Flynn Associates Management Corp. is a management consultant company. It was organized to manage and oversee the operations and strategy of all Scientology litigation of Michael Flynn Associates.

Michael Flynn Associates are a group of lawyers who on behalf of former Scientologists, have litigation pending against the Church of Scientology nationwide.

FAMCO's contract with Michael Flynn Associates includes the following two areas:

1) Organization and development; over the past two years hundreds of clients, lawyers, media, parents, etc. have contacted Michael Flynn Associates for help and information. As a result, Michael Flynn Associates has become a base of information and operation of Scientology litigation. FAMCO administers this inflow and outflow of people and information. ④

2) Planning

History - At the inception of Scientology litigation, Michael Flynn and associates lawyers had one lawsuit against the Church of Scientology. When the suit was filed, the media picked up on it resulting in a great deal of local media attention. The local Church of Scientology immediately responded, issuing defamatory statements and filing Board of Bar Overseers Complaints against Michael Flynn. The publicity caused many disaffected Scientologists to come forward asking for Attorney Flynn's help. The news of ex members coming forward generated only more, until Flynn's office became incapable of handling the people, materials, and documents it was besieged with.

Further lawsuits were filed on behalf of ex Scientologists with little consideration to cost/benefit - specifically cost to produce the lawsuit, expected litigation time, estimate of lawyer time, court and associated costs, versus benefits, or relative value of lawsuit using previous settlement or verdict history, and the value and reachability of Church assets. ⑤

Early in 1980 FAMCO evaluated all the elements of this litigation and proposed and instituted the following administrative reorganization, review of present worth (settlement and verdict) of present and future cases, an evaluation of reachable assets in the major geographic locations where lawsuits are filed, and analysis of options concerning "where do (the lawyers) go from here". Finally under the heading of planning, FAMCO prepared a financial cost profile looking at each option open to the lawyers concerning which direction to proceed. ⑥

The Problem in Clearwater

Since 1976 the City of Clearwater, Florida has been beset with the problem of having the Scientology cult infiltrating the fabric of the community. Since five years tenure in the Community has created external ill feeling over the years the media has published

many stories of Scientology activities in Clearwater. As a result of this media attention the City has received a "black eye" of sorts, lessening the desirability of new taxpayers and business's to locate thier. Scientology property in Clearwater proper has or will depress business and real estate values resulting in a dying town. (2) (1)

Why this happens can be shown by looking at a similiar experience on Fountain Ave. in Hollywood, California. Scinetology purchased numbers of buildings in Hollywood in the Sixties and Seventies and reconverted them to house and train Scineotlogists. Scientologist on the wholedirect most or all thier income to the Scientology organization as a result these Scientologist have little or no income to dispense within the business community. Many go on welfare in order to survive. Herein lies the root of the problem. As more Scientologists move into the area the Scientology organization purchases surrounding real estate at depressed prices driving productive revenue producers out to more affluent areas where money still flows bewteen people and business. (2)

A look at Hollywood today versus twenty years ago is startling. Twenty years ago Hollywood California was the home of middle and upper class citizens. Today it has been transformed into a welfare community, welfare or low income non Scientologist have now moved into the are as a result of depressed real esatate values. The expected increase in the crimerate followed awiftly. Interestingly, Scientology moved in quietly with most persons not knowing who they were or believing thwy were a Church as most people understand a church to be.

Naturally, it would be difficult to project a similiar scenaro occuring in Clearwater, but certainly all the key ingredi ents are there.

The danger, however lies not in people fearing Scientology, but how Scientology can further a deteriorating community around it. An ensuing domino effect occurs as business's and tax payers leave the area effectively preventing new ones from coming in. (3)

The Proposal

Notw; Flynn Assoc. Management Corp. is supplementing this proposl with the Class Action Development Program to which it refer from time to time. (4)

The purpose of this proposal is to offer shares in Flynn Associates Management Corp. for sale. Flynn Assoc. Mgmt Corp. is a management consulting firm presently under contract with Michael Flynn and Associate lawyers to which it provides services. The services encompass those discussed in the Description section of this proposal. Michael Flynn and associate lawyers has contracted with Flynn Associates Mgmt Corp. to assist in organizing and carrying out the development of new lawsuits to be filed in Clearwater, Florida, being brought on behalf of clients of Michael Flynn lawyers. Because of a variety of constrictions, the law firm of Michael Flynn and other associate lawyers has contracted Flynn Assoc. Mgmt Cotp. to organize and operate the development program. The constraints mentioned above include 1) geographic seperation of both clients and lawyers from each other as well as from Clearwater. 2) Education, communication and on going legal assistance of the new counsel to be developed in the Clearwater area. This includes drawing upon two years of understanding thousands of documents, hundreds of clients, former members from Hubbard's son to Guardians Office (CIA of Scientology) defect legal memorandum from cases filed (the turnkey lawsuit) government and media contacts, legal consulting and review, etc. (5) (6)

With propoer organization and administration Michael Flynn and Associates lawyers hopes to bring on behalf of a rieved former Scientologist, series of lawsuits in Clearwater Florida. Some of the lawsuits in question are described in the Class Action Development program in sections entitled present cases and present clients. The present worth of these qases range from a low of 6,412,600 which represents just time and money lost to a high of 21,104,904 which represents an award of moderate punitive damages. Presently, the only experience subject to analysis is the Julie Tichbourne Christofferson case in Protland, Oregon. This case was brought against the Scientologist by the law firm of McNary (7)

(3)

on behalf of Julie Christofferson. Ms. Christofferson was in Scientology for a period of approximately nine months and lost ~~for~~ just over \$3000. McMurry tried the case in early 1979 prior to any legal or media notoriety. McMurry operated solely on information produced to him by his client, Ms Christofferson. The limited amount of information the jury heard outraged them to an extent they awarded Ms Christofferson her \$3000. back and \$2,100,000 in punitive damages. We view this as an extreme amount and have taken a much more moderate posture in estimating the high range of these Clearwater cases. The Church in Portland appealed the case but interestingly the Church put up \$2,000,000 in cash and property in escrow to satisfy the claim. (1)

However the Clearwater cases are horror stories compared to the Christofferson case. Additionally, documents, witnesses and former members would provide far greater impact than the limited resources available to the ~~McMurry~~ McMurry firm. ~~Three~~ Three years later the country and certainly the people of Clearwater provide a hostile environment for the Scientologist to defend a lawsuit. (2)

In order to coordinate the development program in Clearwater, Flynn Assoc. Mgmt. Corp. requires financing, necessary to expand. Expansion would provide services to lawyers in ~~Clearwater~~ Clearwater similar to those described earlier. Financing would provide the necessary working capital for this to take place. (3)

An offering is therefore made to sell an appropriate amount of shares to raise \$180,000 (4)

The \$180,000 will cover expenses for an 18-24 month period. Expenses will consist of operating expenditures - rent - utilities - salaries, material, etc. Lawyers Court costs and other associated expenses. The \$180,000 figure was extrapolated for the experience of Michael Flynn and associate lawyers 24 month period of litigation in which \$232,000. was expended. These costs were incurred as a result of litigation over a broad geographic area and the startup costs associated with the litigation. (5)

Presently 21.6% of the company is offered for sale. A 21.6% profile ownership provides \$2.00 return for each \$1.00 invested. (6)

Revenue: Assets of Flynn Assoc Mgmt Corp are the following: (7)

22000	Cash on Hand
218000	Accounts Receivable
Projected 240,000	future accounts rec.
Revenue 187,500	individual loan accts
1,080,000	25% of projected
1,747,500	fees

There are presently no liabilities

Based on the above assets and projected revenue schedule 21.6 % of the company is offered for sale. A 21.6% share holder profile provides a 2.00 return for each 1.00 invested. As lawsuits successfully conclude dividends will be dispersed to satisfy these return scenario/ (8)

The Assets and revenue schedule figures are the low to medium range figures found in the Class Action ~~McMurry~~ Development Program. If verdicts or settlements in the Clearwater ~~Cases~~ Cases followed a moderate to extreme posture projected revenue would be 3,384,000 providing a share holder return of 4.80 for each 1.00 invested.

Down Side Risk

As in any risk venture the opportunity for the investor to lose all or some of his or her money exists. The question is what is the probability that will occur. Defining the parameters necessary to look at this probability is again to review experience and litigious atmosphere and environment. (9)

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Historically, once a case is tried before a jury the Scientologist suffer badly, the aforementioned Cristofferson case is an extreme of the type of damages awarded. Other include the Allard case (years ago), in defendant cases, cases where the Scientologist sued, the judge granted \$, in legal fees in the C of S v. Canada.

To
To date all plaintiff cases as well as most defendant cases against the Church have been successful.

Closely tied to this is the litigious atmosphere in Clearwater. Certainly an atmosphere in which citizens of Clearwater and even the entire US are anti-cult. An atmosphere in which the probability of losing all Scientology litigation has to be characterized as low. 1

The most important factor in discussing this probability of loss is which side is legally strongest. Since the Scientologist regularly engaged in larceny.....it is clear out legal footing is solid, with documents and witnesses to support all of it. 2

Contract

The Flynn Associate Mgmt contract with Michel Flynn lawyers covers a 48 month period at \$458,000 and 25% of all fees collected. The \$458,000 portion of the fee is handled as an expense and deducted first from any Scientology award or settlement. 3

(5)

Historically, once a case reaches a jury the Scientologist suffer badly. The afore mentioned Christofferson case is an example of the type of damages awarded. Apparently even small amount of evidence introduced to a jury during trial describing the true character and nature of Scientology, enrages the jury to an extent where it will grant large punitive damages awards. Subsequently, the question of appeal of the award and collectibility arise. Collectibility is the ability to actually collect the monies awarded. Again in the Christofferson case the Scientologist put in escrow two million dollars in cash and real estate to satisfy the claim.

Primarily all of Scientology's real estate is located in wither Clearwater, Florida or Los Angeles, California and most of this Real Estate was purchased in cash.

With no apparent lien on this real estate the capability to secure it as a result of a jury's award is good.

The question of appeal of any one award is not really a question since we can expect the Scientologist to appeal any plaintiffs award. In this area we must once again return to the Christofferson case since it presently is being appealed. In a recent discussion with Gary McMurry lead counsel from the law firm of Rankin, McMurry and Osborne handling Christofersons case, McMurry is very confident the award will be upheld without any substanital change in the size og the award. Again, we view the award as excessive (125 times actual damages) as the most severe damage posture we used in our models is 25 times actual damage.

Briefly in other civil experience, the Allard case

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Table A 24 month period

Item	Expense
1. Rent or lease	12000
2. Utilities	2400
3. Telephone	9200
4. Office Supplies	1800
5. Travel & Expenses -(lawyers, witnesses, adminsitration)	36000
6. Associated Cost	24000
7. Salaries and fees secretaries, management advisors, consultants	75,900
8. Working capitol and reserve	<u>18,7000</u>
Estimate Costs	180,000

Notes on Table A

Over the next two years litigation in Clearwater intensifies, the cost described in Table A would be realized. Each account estimate is based on the experience of the past two years of litigation. Account numbered 1-4 represents offices shared or otherwise in Boston and/or Clearwater to adminstrate the litigation. Accounts, travel and expense coordinates and pays expenses for lawyers, witnesses, clients and experts who testify or are deposed either before or during trial for all Clearwater cases, account 6, associated cost and coount 7 salaries and fees pays lawyers time, court and discovery costs, support personnell and saleries management persons. Account 8 is for unforeseen and reserve. (1)

Table B is the balance sheet of Flynn Associates Management Corp.

Flynn Associates Mgmt Corp
Balance Sheet

May 1, 1981

Current Assest

Cash	21,420
Inventroy	650.00
Intangible Assest	
Account Receiveable - litigation	192,000
	<hr/>
	214,070

Equities

Current liabilities		Stock Holder Equity	
Accounts Payable	3562.00	Capitol Stock	210,508
			214,070

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Table C looks at the projected revenue using three models. The first model depicts a legal scenario in which a jury would award the victim his money and time lost, model 2 is time and money plus a small punitive damage award we define a small damage award as 5 times model 1. Model 3 is model 1 plus a moderate to severe punitive damage award of between 10-25 times model 1. A further perspective can be drawn to understand these models using the Julie Christofferson case. The jury awarded Christofferson 175 times damages or 175 times model 1. We view this as excessive and have taken a more conservative model posture.

Each model is made up of the same prospective case listings. For Clearwater on page_____.

Notes on Models.

The models just reviewed consider only Clearwater, Fla. cases. To construct these models various assumptions were made. First, each case would reach the trial stage of litigation with a plaintiffs verdict. Certainly the possibility for settlement exist, and the Scientologist have made some overtures to settle, but we view this as a remote possibility. Secondly, the possibility of a defendants verdict exists or specifically the investors down side risk, this possibility will be reviewed shortly. Each of the cases discussed in the model were chosen using most personal damages priority basis. In other words of the many potential cases in Clearwater those person most seriously damaged by the Scientologist will be prepared and filed first. Consequently, the case's have the best opportunity for large jury awards. Each model is prepared on a simple revenue producing basis. Tax consequences, investment credit applicability and subchapter _____ will be discussed at a later time. 2

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Table C

1

Model 1 - Clearwater Fla Only

	<u>Low</u>
Tonja Burden	5,352,000
Jane Doe	515,000
Jane Doe	286,000
Jane Doe	285,000
Jane Doe	152,000
Jane Doe	446,000
total	<u>7,038,300</u>

Revenue

Account Receiveable 19200

Fees $6,422,300 \times 38\% \times 25\%$ 688,638
860,638

(38% = legal fees)
(25% = Flynn Associates fee)

Presently 40% of the company is offered

A 4% share holder initial investment of 18000 would yield a return of 34,425 ($4\% \times 860,638$) within this model before taxes.

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Model 2 - Clearwater, Fla. only

	<u>Medium</u>
Tonja Burden	8,842,852
Jane Doe	586,600
Jane Doe	585,700
Jane Doe	552,000
Jane Doe	4,650,000
Jane Doe	2,200,000
total	<u>17,417,152</u>

Revenue

Accounts receiveable 192,000
Fees $17,417,152 \times 38\% \times 25\%$ 1,654,629
1,846,629

A 4% share holder with initial investment at 18000 would realize a yield of 73,865 in this model before taxes.

Model 3 - Clearwater Fla only

Tonja Burden
Jane Doe
Jane Doe
Jane Doe
Jane Doe
Jane Doe

Moderate - Severe
13,104,404
1,586,600
1,552,000
8,450,000
4,400,000

30,678,704

Revenue

Accounts Receivable

192,000

Fees 30,678,704 x 38% x 25%

2,914,476

3,106,476

A 4 % share holder with an initial investment of 18000 would realize a yield of 124,259 in this model before taxes

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About the Proposal

The following proposal contains an evaluation of filed and yet to be filed Scientology cases from the law firm of Attorney Michael Flynn. The evaluation was prepared by Flynn Associates Management Corporation. The purpose of the evaluation is to prioritize which Scientology case's to proceed with from a cost/benefit viewpoint.

The introduction to the proposal was prepared by Atty Michael Flynn, lead counsel in the law firm, for Flynn Associates Management Corporation. The introduction is a short history of the litigation concerning Atty Flynn's Office.

After the evaluation of law suits, Flynn Associates Management Corporation organized a network of lawyers throughout the United States to bring the lawsuits on behalf of agrieved former Scientologist. To adminstrate their "turn key" lawsuits in strategic geogrpahic areas. Discussion of this is included in the proposal under the section entitled May Conference.

Finally, a short prospectus to purchase shares in Flynn Associates Management Corporation is offered. The purpose of the offering is to increase the capability of Flynn Associates Management Corporation to properly coordinate and adminstrate Scientology litigation. The offering is made to selected persons in Clearwater, Fla.

About the Conference

On May 16-18 a conference was held to introduce the case development program. Attending the conference were lawyers representing prominent law firms in: Boston, New York, Florida, Denver, Washington D.C., San Frmasico, Los Angeles, Las Vegas, New Jersey and Texas. Also in attendance were outside speakers such as Gene Methven, Senior Editor of Readers Digest. Enclosed in this section are topics of discussion and the agenda and outline used at the conference.